

Most banks planning to offer repo-linked interest rates

5 banks, including BOI and BoB, have announced linking lending rates to RBI rate

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Mumbai: With banks moving towards a repo-linked lending rate for retail home loans, vehicle loans and even large corporate loans, customers will have more to cheer.


In an interest rate-falling regime, this will mean that their borrowing costs will see a sharp decline.

Several public sector banks have already made the shift to repo-linked lending rates.

"We first launched the repo-linked loans for the working capital requirement of companies and then extended it to retail products as well. The rate of interest is 8.05%, the lowest in the market," SBI chairman Rajnish Kumar told DNA.

The private sector banks are likely to follow suit. Repo rate is the rate at which RBI lends short-term money to banks.

As many as five public sector banks announced over the weekend that they are reducing their lending rate while introducing a repo-linked system. The latest to offer their customers this benefit is Bank of Baroda (BoB). The bank said that it will have a new home loan variant directly linking interest rates to an external



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■ The private sector banks are likely to follow suit and are working out the contours

RATE CALL	(MCLR) Lending rate reduced by (%)
Bank of Maharashtra	0.10
SBI	0.15
BOB	0.15
IDBI Bank	0.15
Allahabad bank	0.15 - 0.20
Bank of India	0.25
Syndicate Bank	0.25

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benchmark, which in this case is the repo rate, thereby building a direct link to ensure fair and transparent transmission of the monetary policy rate.

However, the housing finance companies like HDFC are unlikely to have a repo-linked lending rate as they do not borrow from RBI. HDFC vice chairman and chief executive officer Keki Mistry told DNA, "We do not borrow from RBI so we will not have a repo-linked product. We will, however, keep our rates competitive."

The repo-linked home loan customers will have the option to select between marginal cost-based lending rate (MCLR), which is indexed to the bank's cost of funds, or a repo-rate linked to an external benchmark. For BoB, the MCLR-linked home loan product starts at 8.45%, effective from August 7, after the MCLR was reduced by 15 basis points. The new variant home loans will also be available at repo-rate linked interest rate starting at 8.35%.

"We will also have a repo-linked home loan, but we

need to see how it can be stabilised without much confusion to the consumers," said the head of a private sector bank who did not want to be quoted.

Syndicate Bank said that it will have repo-linked home loans, personal loans and also for large corporate borrowers.

In the last two days, Bank of India reduced the lending rate by 0.25%, Syndicate Bank by 0.25%, IDBI Bank by 0.15%, Allahabad Bank by 0.15%-0.20% and Bank of Maharashtra by 0.10%.